Natural Sciences and Engineering Research Council of Canada Quarterly Financial Report for the Quarter Ended September 30, 2012

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs, and Budget 2012 Implementation

1. Introduction

The Natural Sciences and Engineering Research Council of Canada (NSERC) was established in 1978 by the *Natural Sciences and Engineering Research Council Act*, and is a departmental corporation named in Schedule II of the *Financial Administration Act*. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting postsecondary students and postdoctoral fellows in their advanced studies, promoting discovery by funding the research programs of academic researchers, and stimulating partnerships between academia and industry. Further information on the NSERC mandate and program activities can be found in Part II of the Main Estimates.

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates for 2012-13.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes NSERC's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates for the 2012-13 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authorities for specific purposes.

As part of the parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 proceeding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after

the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

NSERC uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

2. Highlights of Fiscal Quarter

Statement of Authorities

Available Authorities

As of September 30, 2012, NSERC's total authorities available for 2012-13 amounted to $1,059 million. The changes in total available authorities are the result of previous federal budget announcements and Parliament decisions that impact both the operating authorities (vote 75), and the grants and scholarships program authorities (vote 80) in the current fiscal year. The total available authorities include the 2012-13 Supplementary Estimates (A) (SEA). There was no SEA process in 2011-12 due to the elections. In addition, NSERC is authorized to transfer up to 5% of its operating budget (vote 75) to the next fiscal year (representing a $2.1 million carry-forward from 2011-12 to 2012-13). This operating budget carry-forward process is in place to provide federal departments and agencies with some flexibility to manage cash flow appropriately and to address schedule variances in operating projects. To date for 2012-13, these cumulative changes resulted in an increase in total authorities of $6.7 million (0.6%) over the previous fiscal year. This net increase in total authorities is attributable to a $5.2 million increase in grant and scholarship authorities (vote 80) for expanded programs, a net increase of $1.5 million in operating expenditures and employee benefits plan authorities due to the augmentation of certain funding, and an

increase in the operating budget carry-forward amount over the previous year. The following elements comprise the changes in total available authorities:

- an increase of **$15.0 million** to the NSERC budget to support outstanding research in the natural sciences and engineering. Funds will be allocated to the Strategy for Partnerships and Innovation, and the Discovery Grants Program *(Budget 2011);*
- an increase of **$7.0 million** to expand the College and Community Innovation Program. Funds will be allocated to two new initiatives: Industrial Research Chairs for Colleges Grants and College-University Idea to Innovation Grants *(Budget 2011);*
- an increase of **$7.0 million** to support excellence in climate change and atmospheric research at Canadian postsecondary institutions *(Budget 2011);*
- an increase of **$3.0 million** to select a Canada-India Research Centre of Excellence (CIRCE) (Budget 2011);
- an increase of **$1.0 million** in grants and scholarships due to a transfer from Natural Resources Canada to support the Generation IV Energy Technologies Program;
- an increase of **$0.4 million** to the Canada Excellence Research Chairs program to attract and retain the world's most accomplished and promising minds (Budget 2008);
- an increase of **$0.2 million** in the operating budget carry-forward over the previous year due to the increased operating budget carry-forward limit associated with increased funding from *Budget 2011* announcements;
- a decrease of **$8.4 million** due to the sunsetting of current funds (renewal of these funds will be completed this fiscal year) of the Business-Led Networks of Centres of Excellence Program (Budget 2007);
- a decrease of **$7.0 million** related to the Canada Graduate Scholarships Program due to the phase out of the Economic Action Plan *(Budget 2009);*
- a decrease of **$6.9 million** due to the sunsetting of current funds (renewal of these funds will be completed this fiscal year) of the Industrial Research and Development Internship Program. The funding of projects under this program was extended for one year using grants and scholarships program funds *(Budget 2007);*
- a decrease of **$1.3 million** in operating funds due mainly to the sunsetting of current funds for the Business-Led Networks of Centres of Excellence Program and Industrial Research and Development Internship Program (renewal of these funds will be completed this fiscal year) *(Budget 2007);*
- a decrease of **$2.0 million** in the Networks of Centres of Excellence Program due to the sunsetting of funding (*Budget 2004)*;
- a decrease of **$0.5 million** in grants and scholarships programs due to a transfer to the International Development Research Centre for the International Research Initiative on Adaptation to Climate Change; and
- a decrease of **$0.8 million** in transfers to SSHRC and CIHR to cover ring-fenced initiatives that fall under their mandate.

Authorities Used in the Second Quarter

This departmental QFR reflects the results of the current fiscal period in relation to the 2012-13 Main Estimates and the Supplementary Estimates (A), for which full supply was released by Parliament on

June 29, 2012, and the carry-forward of operating funds from 2011-12 to 2012-13 that was approved on September 28, 2012.

Total authorities used during the second quarter of 2012-13 amounted to $244 million (23% of the total available authorities: 22.8% of total authorities used for grants and scholarships programs and 27.1% for operating expenditures and employee benefits). This represents a $4 million increase from the same quarter of the previous fiscal year ($1.5 million net increase in authorities used for grants and scholarship expenditures and $2.5 million increase in authorities used for operating and employee benefits plan expenditures). The increase in grants and scholarship expenditures is the result of the expanded program authorities and increasing demand in some partnerships.

The increase in authorities used for operating expenditures and the employee benefits plan over the second quarter of the previous year is mainly related to an increase in personnel expenditure. In the second quarter, the operating expenditures are over 25% of the annual available authorities because some benefits were paid to NSERC employees as the result of the renewal of the Terms and Conditions of Employment. NSERC employees had the option to cash out certain benefits that were no longer included in the Terms and Conditions of employment.

Grants and scholarships payments vary between periods due to the cycle and results of the peer-reviewed program competitions, and the multi-year award profiles. The operating expenditures cover personnel and other operating expenses required to support the delivery of the grants and scholarships programs. Expenditures related to the employee benefits plan are accounted for separately in statutory authorities. Although the majority of personnel expenditures and other operating costs are incurred in a consistent manner throughout the fiscal year, the balance of expenditures, including temporary employees hired for the peak competition season and travel costs for peer reviewers, occur in direct conjunction with the program cycle and are demand driven. As a large proportion of the program competitions occur in the final quarter of the fiscal year, the operating expenditures in each of the first three quarters are typically less than 25% of the annual operating available authorities.

Authorities Used Year-to-Date

Total authorities used cumulatively during the first six months of the 2012-13 fiscal year represented $525.6 million (49.6% of the available authorities). This represents $4 million more than the previous fiscal year, of which $1.3 million is attributed to grants and scholarships expenditures. The main factor for this overall increase is the delivery of the additional programs and supporting the additional grants approved by Parliament (as outlined in the Available Authorities section). The proportion of the cumulative grants and scholarships authorities used in the fiscal year has been lowered slightly to 49.7% in 2012-13 from 49.9% in the previous fiscal year. The cumulative authorities used in this fiscal year for operating expenditures and employee benefits plan increased by $2.7 million over the last fiscal year. NSERC spent 47.8% of its operating authorities and employee benefits plan in the current fiscal year, compared to 43.8% in 2011-12. The main factor of this increase is the cash-out of some benefits by NSERC employees as per the approved Terms and Conditions of Employment.

Statement of Departmental Budgetary Expenditures by Standard Objects

Variation in Amounts Available for Use in 2012-13

As described in the Available Authorities section, NSERC's parliamentary authorities have been increased by $6.7 million for 2012-13 to date over the prior year. The majority of this increase is attributed to the transfer payment (grants and scholarships) programs ($5.2 million) and a slight balance of $1.5 million increasing the net available authorities for operating expenditures and employee benefits plan to support the delivery of programs.

The implementation of the government's efforts to return to a balanced budget had no significant impact on the overall results of the second quarter but could explain the variance in expenditures in terms of standard objects. The savings that resulted from the changes will affect the results of the quarters to come.

Transfer Payments Expenditures (Grants and Scholarships)

Second Quarter and Year to Date Grants and Scholarships Expenditures

Transfer payments represent approximately 95% of NSERC's available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of program cycles. During the second quarter of 2012-13, NSERC's transfer payment expenditures increased by $1.5 million compared to the same quarter of the previous fiscal year. The main factors for the increase over the previous year is the additional grants and scholarships spending related to the expanded program authorities and the related increased take-up in certain programs in the second quarter for the programs part of the Strategy for Partnerships and Innovation. This increase explains the overall annual increase of expenditures over the same period last fiscal year.

Second Quarter and Year to Date Personnel Expenditures

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (70.6% of available operating authorities or expenditures for 2012-13). The personnel expenditures for the first six months of the fiscal year of 2012-13 increased by $3.2 million (18.4%), mostly in the second quarter ($3 million) in comparison with the same period of the previous year. This increase is the result of changes in the NSERC Terms and Conditions of Employment. To reduce the government's financial liability and to align with the greater Public Service and the Canadian Labor Market, where severance pay in the case of voluntary departures is not common practice, severance benefits for retirement and resignation ceased to accumulate, and accumulated severance benefits were paid out to NSERC employees. Treasury Board Secretariat will compensate NSERC for these expenditures and the NSERC operating authorities will be increased accordingly in the quarters to follow.

Second Quarter and Year to Date Non-Personnel Operating Expenditures

Non-personnel operating expenditures include all other operating costs related to the support of program delivery, a significant proportion of which relates to program competitions that take place predominantly during the latter quarter of the fiscal year. For the first half of the year, the non-personnel operating expenditures decreased over the same period of the previous year by $519,000 (20.1%), with the majority of the effect residing in the second quarter ($506,000). This decrease is mainly in professional and special services ($647,000), and travel ($192,000); while the Acquisition of machinery and equipment increased by ($466,000). All of these changes are mainly due to the timing of purchases that occurred in the comparative period of the previous fiscal year. Last fiscal year, purchases were made during the first half of the fiscal year. Also, some changes in operations, such as the use of teleconferencing which is in line with Government-wide efficiency initiatives, explains the decrease in certain expenditures such as travel, as well as the increase in other expenditures such as Acquisition of machinery and equipment.

3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

Through the council's most recent corporate risk identification exercise, the risks that have a potential financial impact or that deal with financial sustainability have been assessed. The impact on NSERC and the planned mitigation strategies related to these risks are discussed below.

External Risk Factors

NSERC is funded through annual parliamentary spending authorities and statutory authorities for program transfer payments (grants and scholarships programs) and its supporting operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, delivering programs can be affected by factors such as the economic and political climate, technological and scientific development, and evolving government priorities, which impact approved resource levels (total available authorities).

Research and innovation are part of a global enterprise; therefore participation in our programs is not only influenced by the Canadian context, but also by initiatives and opportunities worldwide. Formal communications and external relations strategies are developed by NSERC to ensure that stakeholder relationships and expectations are managed effectively and that NSERC has fulfilled the research and innovation needs.

There is also the risk that NSERC fails to achieve its mandate and strategic outcomes. To mitigate this risk, an integrated planning process was launched by NSERC in 2012. This process will serve as the foundation for NSERC to plan all aspects of its business in an integrated manner in order to align priorities and resources accordingly.

Internal Risk Factors

NSERC is a knowledge-based organization that relies on maintaining its talented and committed workforce to deliver its programs. To retain its valuable human resources and their corporate memory, NSERC is developing a human resources strategy that outlines the organization's commitments and action plan for developing talent and for building and sustaining a thriving and successful workplace and work culture. NSERC's financial restraints are challenging their ability to hire the skilled resources needed to successfully achieve the transformation and realignment agendas to meet tomorrow's needs. Potential consequences could include workload management issues and succession planning challenges.

NSERC is transforming its business in order to adapt more efficiently to internal changes and to improve external client service.

Federal Budget 2010 and 2011 announced operating budget constraint measures and froze the operating budgets of federal departments and agencies at their 2010-11 levels for fiscal years 2011-12 and 2012-13. Federal Budget 2012 announced the Government of Canada's efforts to return to a balanced budget. The resulting budgetary pressures include the self-financing of annual salary increases requiring internal reductions and reallocation measures. These pressures are compounded by the operational requirement to support an increased and broadened program base while processing an increasing number of applications within limited operational envelopes and inflationary costs on operating expenditures. NSERC is also managing the requirement for the implementation of modernized technology solutions to better support program delivery.

Thus far, NSERC has achieved the reduction of its operating pressures through economies of scale achieved by the shared administrative service arrangements with the Social Sciences and Humanities Research Council of Canada (SSHRC), corporate-wide prioritization and reduction of activities, internal reallocations and a focus on streamlining and generating efficiencies wherever possible. An established budgetary process with regular in-year budget reviews and formal reallocations for emerging priorities approved by senior management supports this endeavour. NSERC is also undertaking a revision of its operating and grant delivery systems and processes to generate further efficiencies and future savings.

NSERC is a lean agency in terms of operating funding provided to deliver existing and expanding programs (less than 5% of total resources). An integrated planning process to address restraint measures and funding cuts was developed to enhance NSERC's resource decision-making.

4. Significant Changes Related to Operations, Personnel and Programs

There were a number of important changes in comparison with the previous fiscal year that relate to operations, personnel and programs. These include the impacts caused by NSERC's increased available authorities, which resulted in expanding dimensions of the Strategy for Partnerships and Innovation program. Another prevalent influence involved the continuing implementation of government-wide operating budget constraint measures and the government's efforts to return to a balanced budget, for which details are described in the section below. The federal Budget 2012, tabled in March, included

funding announcements with additional program dimensions that are being implemented by NSERC, following Treasury Board and Parliament approvals, over the course of the fiscal year.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs, make it easier for Canadians and business to deal with their government, and modernize and reduce the back office.

In the first year of implementation, NSERC will achieve savings of approximately $15 million. The Government of Canada reinvested $15 million this year in support of the Strategy for Partnerships and Innovation, making the net impact on NSERC's overall budget neutral for 2012–13. Net Savings will increase by $15 million in 2013-14 and ongoing.

NSERC examined all of its activities and investments, with the intention of streamlining operations and ensuring maximum efficiencies.

In realizing operating budget savings, a number of measures are being implemented to generate greater efficiency and effectiveness, including an enhanced use of technological advancements, such as teleconferencing and virtual meetings. A rigorous and cohesive approach to priority setting, project planning and training will further help NSERC meet its goals.

Expenditures in the first two quarters of 2012-13 are only slightly higher than in the same period from the previous fiscal year. The difference between the two fiscal years does not yet reflect the savings measures of Budget 2012, which will be demonstrated later in the fiscal year.

There was no incremental funding provided to NSERC to complete the above work that is underway. There are no financial risks or uncertainties related to these savings.

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November 28, 2012